

## Internal Revenue Service

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### LEGEND

X =

Y =

Z =

State1 =

State2 =

Country =

Sub1 =

Sub2 =

Sub3 =

Sub4 =

Sub5 =

Sub6 =

Sub7 =

Sub8 =

D1 =

D2 =

D3 =

D4 =

Dear :

We received a letter dated July 14, 2014, submitted on behalf of X and Z requesting rulings under § 301.7701-3(c)(1)(iv) of the Procedure and Administration Regulations relating to whether certain subsidiaries of X are considered newly formed eligible entities.

### FACTS

The information submitted discloses that X is a corporation under State1 law. X owns all of the interests in Sub1, Sub2, Sub3, and Sub6; Sub3 owns all of the interests in Sub4, which owns all of the interests in Sub5; and Sub6 owns all of the interests in Sub7, which owns all of the interests in Sub8 (collectively, “Subs”). The Subs were initially incorporated under State1 law. On D4, X’s former owner, Y, sold all of the common stock in X to (indirectly) Z, a Country entity. Prior to the D4 stock sale, however, the Subs converted to State1 limited liability companies on D1 (“State1 Conversions”). The State1 Conversions were due to the fact that State1 law barred direct conversions of State1 corporations to the State2 limited liability companies that Z preferred. The Subs intend to file elections under § 301.7701-3(c)(1)(i) to be classified as associations effective D1 (“First Elections”). In addition, Sub1, Sub2, Sub3, Sub4, Sub5, Sub6, and Sub7 on D2, and Sub8 on D3, then converted to State2 limited liability companies, as permitted under State1 law. The Subs intend again to file elections

under § 301.7701-3(c)(1)(i) to be classified as disregarded entities effective D4 ("Second Elections").

### LAW AND ANALYSIS

Section 301.7701-2(b)(1) provides that for federal tax purposes, the term "corporation" means a business entity organized under a Federal or State statute, or under a statute of a federally recognized Indian tribe, if the statute describes or refers to the entity as incorporated or as a corporation, body corporate, or body politic ("per se corporation").

Section 301.7701-3(a) provides, in part, that a business entity that is not classified as a corporation under § 301.7701-2(b)(1), (3), (4), (5), (6), (7), or (8) (an eligible entity) can elect its classification for federal tax purposes as provided in § 301.7701-3. An eligible entity with at least two members can elect to be classified as either an association (and thus a corporation under § 301.7701-2(b)(2)) or a partnership, and an eligible entity with a single owner can elect to be classified as an association or to be disregarded as an entity separate from its owner.

Section 301.7701-3(c)(1)(i) provides that except as provided in § 301.7701-3(c)(1)(iv) and (v), an eligible entity may elect to be classified other than as provided under § 301.7701-3(b), or to change its classification, by filing Form 8832, Entity Classification Election, with the service center designated on Form 8832.

Section 301.7701-3(c)(1)(iv) provides, in pertinent part, that if an eligible entity makes an election under § 301.7701-3(c)(1)(i) to change its classification, the entity cannot change its classification by election again within the sixty months succeeding the effective date of the election. An election made by a newly formed eligible entity that is effective on the date of formation is not considered a change for purposes of § 301.7701-3(c)(1)(iv).

The Subs formerly were classified as per se corporations under § 301.7701-2(b)(1) and, thus, did not constitute eligible entities pursuant to § 301.7701-3(a). However, upon converting to State1 limited liability companies the Subs became eligible entities as defined in § 301.7701-3(a). Therefore, the Subs are considered newly formed eligible entities as of D1 for purposes of § 301.7701-3(c)(1)(iv).

### CONCLUSION

Based solely on the facts submitted and representations made, we conclude that the First Elections effective D1 by the Subs will not be considered a change of entity classification of the Subs for purposes of § 301.7701-3(c)(1)(iv). In addition, the Subs will not be prohibited under § 301.7701-3(c)(1)(iv) from changing their entity classification by making the Second Elections effective D4.

Except for the specific ruling above, we express or imply no opinion concerning the federal tax consequences of the facts of this case under any other provision of the Code. Specifically, we express or imply no opinion on whether the Subs are otherwise eligible to make the elections or otherwise qualify to be treated as either associations or disregarded entities.

This ruling is directed only to the taxpayer requesting it. According to § 6110(k)(3) of the Code, this ruling may not be used or cited as precedent.

Under a power of attorney on file with this office, we are sending a copy of this letter to X and Z's authorized representatives.

The ruling contained in this letter is based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the ruling request, it is subject to verification on examination.

Sincerely,

/s/

Holly Porter  
Chief, Branch 3  
Office of the Associate Chief Counsel  
(Passthroughs & Special Industries)

Enclosures: Copy of this letter  
Copy for § 6110 purposes